Dear Sir / Madam,

Re: Guidelines for the economic assessment of mining and coal seam gas proposals

Cotton Australia (CA) welcomes the opportunity to comment on stage three of the Integrated Mining Policy review.

CA is the key representative body for Australia’s cotton growing industry. The cotton industry is a small but integral part of the Australian economy, worth over $1.25 billion in export earnings in the 2014–15 season, and employing on average 10,000 people. The industry’s vision is: Australian cotton, carefully grown, naturally world’s best.

CA met with key staff involved in developing the reforms under the Integrated Mining Policy from the Department of Planning and Environment and Treasury on the 3rd and 10th November 2015.

While beyond the scope of the stage three Integrated Mining Policy reforms we wish to highlight that CA has a significant overarching concern with planning approval processes for coal seam gas and mining development. Our members remain highly concerned regarding the impacts of the mining industry and its effect on groundwater and surface water interception. To avoid long term impacts to water availability and quality and ensure the ongoing sustainability of agricultural industries, robust monitoring is required prior to the development of a mining project to establish benchmark values of groundwater levels. Robust monitoring then provides the mechanism for mining operations to be stopped or put on hold should any of the impacts exceed expectations predicted within the project’s environmental impact statement (EIS). Triggers for groundwater have already been established under the Aquifer Interference Policy and we believe that these triggers could be translated to apply across the mining industry. We also believe that significant reforms to the EIS process are warranted and would be highly supportive of an overhaul of the assessment process as part of any future mining / coal seam gas (CSG) review.
We wish to note upfront that the economic assessment of a project proposal is but one part of an environmental impact assessment required as part of planning approvals in order to proceed. We also wish to recognise that the NSW Government recently repealed 12AA of the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 – reflecting a rebalancing of consideration of all factors (social, environmental and economic) during planning approvals of CSG and mining development project. Section 12AA placed undue emphasis on the economic potential of a mining proposal, and CA was highly supportive of its repeal.

CA’s view is that improved economic assessment of mining projects is also needed – a consequence of a number of historical issues with mining projects previously considered only in light of its proposed economic benefits. Economic assessments currently lack transparency and economic benefits can be over-estimated.

A number of examples highlight serious criticisms of the current economic assessment process. These include:

- Chief Judge Preston (2013) Bulga Milbrodalen Progress Association Inc v Minister for Planning and Infrastructure and Warkworth Mining Limited, NSWLEC 48

CA has experienced first-hand the lack of transparency and overestimation of economic benefits in relation to the Watermark Coal Project. A report to the PAC on the Watermark Coal Project identified significant concerns with the economic impact of the proposed open-cut mine. In the PAC hearing (Watermark PAC Public Hearing, Narrabri, 11th December 2014) it was stated (R.Carr, Marsden Jacobs, on behalf of CA) that, based on the present value of coal prices alone, the benefits of the project have been overestimated to the tune of $2.2 billion. Given the crucial role that coal prices play in determining the economic benefits of a project and the royalties paid to the NSW Government, and thereby flowing through to the NSW community, we expect transparency in reporting of this information. This has not occurred to date. CA is highly encouraged to see that the Cost Benefit Analysis (CBA) workbook has a line item that requires transparency around the coal price which will avoid – in-part – the over-valuation of these projects and greater clarity around the information formulating economic benefits.

We appreciate the aim of the guidelines to improve the transparency of assumptions that are built in to a CBA and allow for improved assessment of economic models submitted to NSW Government agencies. Improvements on the current process in place include:

- A requirement for transparency around inputs used within the economic assessment – including the coal price, and
The development of a consistent approach to cost benefit analysis that will improve the ability of NSW Government agencies to validate economic assessments and determine the reliability of economic claims or where further information is required.

Despite these improvements, there are several additional changes that should be made to the guidelines to further enhance information resulting from the CBA analysis. The guidelines currently provide too much flexibility and will not build the necessary rigour in to the economic assumptions made within the assessment of mining projects. This submission aims to highlight recommendations for improvement, and CA is available to discuss these suggestions with the Department prior to the finalisation of the guidelines.

Concerns around the broader CBA design
CA recognises the limitations of a CBA, whereby assumptions can be built into a model to deliver a desirable outcome. The key to developing a strong CBA is to have better research around assumptions in relation to benefits, the cost to society, informal social research and accurate analysis. As such, we would expect that the guidelines developed by the Department should be solidly constructed around what can be used as an input to a CBA, and what is acceptable for the derivation of assumptions used in a CBA.

We believe that these aspects of the guidelines could be significantly enhanced, particularly in relation to the Local Effects Analysis (LEA) which is used as a mechanism to communicate with local communities to establish the economic benefits of a CSG / mining project. The LEA does not recognise the importance or a requirement to engage with local communities as part of the analysis, representing a significant deficiency. We support engagement with the community to enable the ‘definition’ of the population groups within the LEA and the determination of social impacts on the local community. We would question how such information can be included in the LEA without direct engagement.

We also believe that much more work is required at a local level to avoid the use of multipliers. Multipliers are recognised as highly deficient as they overstate the benefits of projects as highlighted by the Productivity Commission and the Australian Bureau of Statistics. This was acknowledged in the Peer Review undertaken by Grafton who stated that “it is the local expenditures, rather than the income of those directly employed as a result of the project, that determine the multiplier effect in the local area”. CA is supportive of an alternative approach whereby a household expenditure survey could be used as a means to assess potential shifts in expenditures that might result from the project, accompanied by details of the direct number of employment opportunities associated with the project.
We wish to note that approach 2 for the CBA does not require the proponent to provide information on revenues and financial costs in order to determine the net producer surplus. Factors that are considered within such a surplus include:

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<th>Benefits</th>
<th>Costs</th>
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<tr>
<td>Gross mining revenue</td>
<td>Operating costs</td>
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<td>Residual value of capital at end of evaluation period</td>
<td>Capital costs</td>
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<tr>
<td>Residual value of capital at end of evaluation period</td>
<td>Decommissioning costs</td>
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<td>Finance costs</td>
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<td></td>
<td>Environmental mitigation costs</td>
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<td>Transport management costs</td>
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<td>Purchase costs for land</td>
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<td>Local contributions</td>
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<td>All taxes (Australian, state and local)</td>
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It is unclear why an approach (approach 2) that does not require a full CBA has been provided to the proponent as an appropriate option. This is particularly critical given the repeal of 12AA by the NSW Government. This issue brings in to consideration a broader range of factors beyond economic variables, and the (Integrated Mining Policy) (IMP) which was meant to bring about change to transparency to economic assessments. We believe that a CBA developed using attributes of company income tax, royalty payments as a means to determine direct economic benefits avoids the necessary considerations that should occur as part of the economic assessment of a mining proposal. Purchase costs for land, rehabilitation expenses, decommissioning costs and environmental mitigation costs, for example, are absolutely crucial in making a determination regarding the actual nature of any surpluses resulting from mining operations.

**Lack of guideline focus on agricultural impacts**

CA was highly disappointed to see a lack of focus on agricultural impacts within the guidelines. CA acknowledges that the briefing provided on the 10th November indicated that agricultural impacts were to be considered within the base case. However, given the lack of clarity around design of the base case scenario and the deficiencies we have observed in agricultural impacts statements (within the EIS documents submitted by proponents to-date), CA questions the reliability of information that would be included. We note that economic assessments often include outdated values for agricultural production figures, and do not necessarily reflect current agricultural operations within a particular location/region. We also note that the timeframe for the determination of impacts on agricultural industries does not recognise the ongoing continuous improvements and sustainability of agricultural production, which will occur in perpetuity, as opposed to being removed from production as a consequence of mining operations. The long
term impacts of changes to groundwater depressurisation and ongoing availability also fail to be recognised within a short timeframe structure. While we acknowledge that a CBA cannot be developed for an infinite timeframe, we would strongly encourage ongoing impacts and improvements to production systems resulting from mining operations to be captured within the guidelines. These ‘residual’ or ‘ongoing’ impact costs are not sufficiently covered in the draft guidelines.

We would suggest that the document be changed to reflect the importance of agriculture. An initial suggestion would be to articulate this within the base case scenario and ensure that, throughout the documents, agricultural use is given priority over recreational use of groundwater and surface water.

**Advice regarding the technical appraisals**

CA is highly concerned with the guidelines for appraisal of environmental, heritage, social and transport impacts. Across the technical appraisal section there is a distinct lack of recognition of water management regulations in NSW. These regulations ensure that any impact on issued licences for groundwater and surface water represents an infringement on landholder property rights.

We note that Vivid Economics issued concerning recommendations within its peer review which, as a consequence, resulted in modification of the guidelines by the Department. Points of particular concern (see page 3 of the technical peer review under 2.25) include:

- “**Note that dewatering and extraction can benefit surface water if it is returned to them**”
  Groundwater sources are fully allocated and managed under NSW Groundwater Sharing Plans. Dewatering of a groundwater source can have negative impacts on other water licence holders through issues caused by depressurisation. In addition, water management regulations in place in NSW do not allow for the transfer / substitution of water between groundwater and surface water, and licences are only held for either groundwater or surface water. To suggest that dewatering will result in benefits to surface water is incorrect and misleading.
  - It should also be noted that there are quality and environmental considerations to be managed with dewatering of groundwater sources. Therefore, quoting the beneficial impacts to groundwater / surface water is misleading.
  - We would recommend that within this section of the guidelines, proponents should be directed to the aquifer interference policy, which considers other impacts associated with extraction of resources including impacts on aquifer pressure, quality indicators and reliability of surface and groundwater.

- “**It is not clear how an aquifer could be of national significance when a water body could supply no services nationally, pg 70 /71**”
  Under the *Environmental Protection and Biodiversity Conservation [EPBC] Act 1999* (EPBC Act) there are nine matters of national environmental significance protected under the Act including ‘a water resource, in relation to coal seam gas development and large...”
coal mining development. Recognition of water resources within the EPBC Act acknowledges the national level importance of water resources and the potential for significant impact on surrounding industries and ecosystem services as a result of extractive industry development.

The comments made by Vivid Economics and subsequent changes made to the guidelines reflects a lack of understanding of groundwater / surface water resources. This points towards the need for all of the appraisal guidelines section to be considered by technical experts to ensure that appropriate risks / impacts are captured by proponents within the economic assessment process. This reflects the recommendations made by Grafton: “additional peer review by knowledge specialists with appropriate knowledge relevant to the categories in the appraisal guidelines: Aboriginal cultural heritage; air quality; ambient noise; biodiversity; greenhouse gas emissions; groundwater; non-aboriginal heritage; surface water; traffic impacts; and visual amenity”.

CA is concerned that there is no workbook for consideration of surface water impacts. Without a workbook to provide guidance for proponents it is very difficult to see how any surface water impacts will be carried through to the cost-benefit analysis. We would also recommend that the guidelines be updated to include water trading values in NSW to better reflect the significant cost difference for individual primary production valleys. These costs can vary significantly.

It is not clear within the technical appraisal section how the risk models will be used within the CBA – aside from being a qualitative / side assessment document. Risk to groundwater and surface water resources remains a significant concern of regional communities, particularly within those communities where groundwater is relied on for the purpose of drinking water and represents a property right of landholders. Based on the worksheets provided within guidelines, we cannot see how risk figures will feed in to the CBA.

The use of a CBA as a mechanism to determine benefits to the NSW community has significant challenges and shortcomings. We wish to highlight that a holistic approach to consideration of impacts should be part of any decision making process. Further, we wish to indicate the importance of a review of the entire EIS process to provide clarity and transparency around the approvals of mining and CSG developments in NSW.

Should you have any questions regarding our submission please do not hesitate to contact me on 02 9669 5222 or FelicityM@cotton.org.au
Kind regards,

[Felicity Muller's signature]

Felicity Muller  
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Cotton Australia